

**REPORT OF THE AUDIT OF THE
MCLEAN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCLEAN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the McLean County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$112,013 from the beginning of the year, resulting in a cash surplus of \$1,409,157 as of June 30, 2003.

Debt Obligations:

Total bonded debt principal as of June 30, 2003, was \$3,470,000. Future collections of \$5,931,478 are needed to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$2,706,487 as of June 30, 2003. Future principal and interest payments of \$3,567,725 are needed to meet these obligations.

Report Comments:

- The Fiscal Court Should Erect Project Signs As Required By The Community Development Block Grant Agreement
- The Fiscal Court And Green River Area Development District Should Follow Community Development Block Grant Program Procurement Standards
- The Fiscal Court Should Approve All Payments Made From Community Development Block Grant Funds
- The Fiscal Court And Green River Area Development District Should Provide Documentation To Determine The Allowability Of Cash Payments Made From Community Development Block Grant Funds
- The Fiscal Court Should Require Adequate Supporting Documentation For Loans
- The Fiscal Court Should Monitor The Rehabilitation Of Homes And Businesses

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Larry B. Whitaker, McLean County Judge/Executive

Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of McLean County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the McLean County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, McLean County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity of McLean County, Kentucky, as of June 30, 2003, and its receipts and expenditures for the year then ended in conformity with the modified cash basis of accounting.

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AN EQUAL OPPORTUNITY EMPLOYER M/F/D



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Larry B. Whitaker, McLean County Judge/Executive
Members of the McLean County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 4, 2004 on our consideration of McLean County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of McLean County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Fiscal Court Should Erect Project Signs As Required By The Community Development Block Grant Agreement
- The Fiscal Court And Green River Area Development District Should Follow Community Development Block Grant Program Procurement Standards
- The Fiscal Court Should Approve All Payments Made From Community Development Block Grant Funds
- The Fiscal Court And Green River Area Development District Should Provide Documentation To Determine The Allowability Of Cash Payments Made From Community Development Block Grant Funds
- The Fiscal Court Should Require Adequate Supporting Documentation For Loans
- The Fiscal Court Should Monitor The Rehabilitation Of Homes And Businesses

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 4, 2004

MCLEAN COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Larry B. Whitaker	County Judge/Executive
Robert Jennings	Magistrate
Bobby Johnson	Magistrate
Ronnie Coleman	Magistrate
Marshal Hatfield	Magistrate

Other Elected Officials:

William Quisenberry, Jr.	County Attorney
Mike Sallee	Jailer
Linda Ray Johnson	County Clerk
Stephanie King	Circuit Court Clerk
Frank Cox, Jr.	Sheriff
Shelia Fulkerson	Property Valuation Administrator
Mike Muster	Coroner

Appointed Personnel:

Sherry Boyken	County Treasurer
Betty Ray	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MCLEAN COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Debt Service	
<u>Assets and Other Resources</u>					
<u>Assets</u>					
Cash and Cash Equivalents	\$ 1,130,568	\$ 286,910	\$ 40	\$ 929	\$ 1,418,447
Total Assets	\$ 1,130,568	\$ 286,910	\$ 40	\$ 929	\$ 1,418,447
<u>Other Resources</u>					
Amounts to Be Provided in Future Years for:					
Capital Leases	\$ 2,026,875	\$ 679,612	\$	\$	\$ 2,706,487
Bond Payments				3,470,000	3,470,000
Total Other Resources	\$ 2,026,875	\$ 679,612	\$ 0	\$ 3,470,000	\$ 6,176,487
	<u>\$ 3,157,443</u>	<u>\$ 966,522</u>	<u>\$ 40</u>	<u>\$ 3,470,929</u>	<u>\$ 7,594,934</u>

The accompanying notes are an integral part of the financial statements.

MCLEAN COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type				Totals (Memorandum Only)
	General	Special Revenue	Capital Projects	Debt Service	
<u>Liabilities and Equity</u>					
<u>Liabilities</u>					
Capital Leases (Note 5)	\$ 2,026,875	\$ 679,612	\$	\$	\$ 2,706,487
Payroll Liabilities	9,290				9,290
Bonds:					
Series 2001A (Note 4)				3,470,000	3,470,000
Total Liabilities	\$ 2,036,165	\$ 679,612	\$ 0	\$ 3,470,000	\$ 6,185,777
<u>Equity</u>					
Fund Balances:					
Reserved	\$	\$ 97,445	\$	\$	\$ 97,445
Unreserved	1,121,278	189,465	40	929	1,311,712
Total Equity	\$ 1,121,278	\$ 286,910	\$ 40	\$ 929	\$ 1,409,157
Total Liabilities and Equity	\$ 3,157,443	\$ 966,522	\$ 40	\$ 3,470,929	\$ 7,594,934

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MCLEAN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,679,321	\$ 927,449	\$ 35,769	\$ 78,882
Interest	3,013			
Commonwealth of Kentucky Receipts	41,625			
Gain on Investment Transactions				
Other Financing Sources:				
Transfers In	360,028	34,960	151,500	
Borrowed Money	595,000	155,000		
Kentucky Advance Revenue Program	1,728,200	71,800		
Total Cash Receipts	\$ 4,407,187	\$ 1,189,209	\$ 187,269	\$ 78,882
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,355,724	\$ 866,663	\$ 191,687	\$ 375
Construction Costs	199,390			
Transaction Fees	571			
Interest Paid	28,666			
Other Financing Uses:				
Transfers Out	714,576	168,051		290,000
Bonds:				
Principal Paid				
Interest Paid				
Borrowed Money Repaid	67,791	12,896		
Kentucky Advance Revenue Program Repaid	1,728,200	71,800		
Total Cash Disbursements	\$ 4,094,918	\$ 1,119,410	\$ 191,687	\$ 290,375
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 312,269	\$ 69,799	\$ (4,418)	\$ (211,493)
Cash Balance - July 1, 2002	480,529	151,832	5,228	317,532
Cash Balance - June 30, 2003	\$ 792,798	\$ 221,631	\$ 810	\$ 106,039

The accompanying notes are an integral part of the financial statements.

MCLEAN COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type						
Ambulance Fund	Fire Department Fund	Community Development Block Grant Revolving Loan Fund	Health and Human Services Fund	Adult Education Fund	911 Fund	Senior Citizens Fund
\$ 347,938	\$ 173,057	\$ 234,998	\$ 28	\$ 61,375	\$ 161,351	\$ 45,882
145,000 55,000	406,900	3,051		5,000	7,000	49,500
<u>\$ 547,938</u>	<u>\$ 579,957</u>	<u>\$ 238,049</u>	<u>\$ 28</u>	<u>\$ 66,375</u>	<u>\$ 168,351</u>	<u>\$ 95,382</u>
\$ 555,700	\$ 538,507	\$ 152,565	\$	\$ 78,738	\$ 157,762	\$ 93,637
		34,960	28			
	16,900				21,900	
<u>\$ 555,700</u>	<u>\$ 555,407</u>	<u>\$ 187,525</u>	<u>\$ 28</u>	<u>\$ 78,738</u>	<u>\$ 179,662</u>	<u>\$ 93,637</u>
\$ (7,762) 17,677	\$ 24,550 138,891	\$ 50,524 42,612	\$	\$ (12,363) 16,672	\$ (11,311) 25,311	\$ 1,745 364
<u>\$ 9,915</u>	<u>\$ 163,441</u>	<u>\$ 93,136</u>	<u>\$ 0</u>	<u>\$ 4,309</u>	<u>\$ 14,000</u>	<u>\$ 2,109</u>

The accompanying notes are an integral part of the financial statements.

MCLEAN COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

	Capital Projects Fund Type	Debt Service Fund Type	
	Justice Center Corporation Capital Projects Fund	Justice Center Corporation Debt Service Fund	Totals (Memorandum Only)
<u>Cash Receipts</u>			
Schedule of Operating Revenue	\$ 163	\$ 164,940	\$ 3,911,153
Interest			3,013
Commonwealth of Kentucky Receipts			41,625
Gain on Investment Transactions	88,963		88,963
Other Financing Sources:			
Transfers In	44,676	128,101	1,335,716
Borrowed Money			805,000
Kentucky Advance Revenue Program			1,800,000
Total Cash Receipts	<u>\$ 133,802</u>	<u>\$ 293,041</u>	<u>\$ 7,985,470</u>
<u>Cash Disbursements</u>			
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$ 3,991,358
Construction Costs	150,601		349,991
Transaction Fees	59	759	1,389
Interest Paid			28,666
Other Financing Uses:			
Transfers Out	83,425	44,676	1,335,716
Bonds:			
Principal Paid		80,000	80,000
Interest Paid		166,850	166,850
Borrowed Money Repaid			119,487
Kentucky Advance Revenue Program Repaid			1,800,000
Total Cash Disbursements	<u>\$ 234,085</u>	<u>\$ 292,285</u>	<u>\$ 7,873,457</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (100,283)	\$ 756	\$ 112,013
Cash Balance - July 1, 2002	<u>100,323</u>	<u>173</u>	<u>1,297,144</u>
Cash Balance - June 30, 2003	<u>\$ 40</u>	<u>\$ 929</u>	<u>\$ 1,409,157</u>

The accompanying notes are an integral part of the financial statements.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of McLean County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, management has included the McLean County Justice Center Corporation as part of the reporting entity.

The McLean County Fiscal Court has financial accountability for the McLean County Justice Center Corporation because the fiscal court is the governing body and can impose its will on the component unit based upon the criteria stated in GASB 14. The financial information of the McLean County Justice Center Corporation is blended with the reporting entity and is reported in the Debt Service and Capital Projects Funds.

Additional - McLean County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting McLean County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. McLean County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The McLean County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The McLean County Special Revenue Fund Type includes the following county funds: Ambulance Fund, Fire Department Fund, Community Development Block Grant Revolving Loan Fund, Health and Human Services Fund, Adult Education Fund, 911 Fund, and Senior Citizens Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the McLean County Justice Center Corporation Debt Service Fund.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The McLean County Justice Center Corporation Capital Projects Fund is reported as a Capital Projects Fund Type.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amount to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

D. Legal Compliance - Budget

The McLean County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the McLean County Justice Center Corporation Capital Projects Fund and the McLean County Justice Center Corporation Debt Service Fund because bond indentures and other relevant contractual provisions require specific payments to and from these funds annually. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts. The county considers certificates of deposit with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. The McLean County Planning and Zoning Commission is a joint venture of the McLean County Fiscal Court and the cities of McLean County. Costs of the commission are shared on a pro-rata basis.

G. Jointly Governed Organization

A regional government or other multigovernmental arrangement that is governed by representatives from each of the governments that creates the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. The McLean County Fiscal Court (Fiscal Court), in conjunction with City of Calhoun (City), has created the McLean County Parks Board (Parks Board). The Parks Board is

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

G. Jointly Governed Organization (Continued)

composed of seven members consisting of the Mayor of Calhoun, McLean County Judge Executive, one citizen from the City, one city council representative appointed by the mayor, one citizen of McLean County, one magistrate appointed by the Judge Executive, and one member of the McLean County Extension Service appointed by the extension service and approved by the Mayor and Judge Executive.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system, which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003 the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. McLean County, Kentucky Justice Center Corporation Bonds

The McLean County, Kentucky Justice Center Corporation entered into a bond issue, McLean County, Kentucky Justice Center Corporation First Mortgage Revenue Bonds (Courthouse Annex Project), Series 2001A on March 2, 2001, for the purpose of financing the costs of construction of the expansion of the McLean County Court facilities; to capitalize interest during construction; and to pay the costs of issuance of the bonds. The issue amount of the bonds was \$3,550,000.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. McLean County, Kentucky Justice Center Corporation Bonds (Continued)

The McLean County, Kentucky Justice Center Corporation and the McLean County Fiscal Court entered into a lease agreement with the Commonwealth of Kentucky, Administrative Office of the Courts (AOC), in which the AOC will lease from the corporation the courts facility. The lease is renewable July 1 for a period of two years. Rental payments are due semiannually on March 1 and September 1, of each year. The interest rate on the bonds is 4.0% to 5.0%. The outstanding principal balance as of June 30, 2003 was \$3,470,000. Future lease interest and principal requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 163,650	\$ 85,000
2005	160,250	90,000
2006	156,650	90,000
2007	153,050	95,000
2008	149,250	100,000
2009-2013	679,288	565,000
2014-2018	539,590	705,000
2019-2023	350,750	885,000
2024-2027	109,000	855,000
Totals	<u>\$ 2,461,478</u>	<u>\$ 3,470,000</u>

Note 5. Capital Leases

General Obligation Improvement Notes - Series 2001

On July 23, 2001, the McLean County Fiscal Court issued \$340,000 of Series 2001 General Obligation Improvements Notes for the purpose of funding improvements throughout the County, including new sewer and water lines, a career center project and a health department project. The interest rate is 4.50%, with semi-annual interest payments due on the 1st of January and July. The Notes will mature on July 1, 2003. The principal balance as of June 30, 2003 was \$340,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 8,400	\$ 340,000
Totals	<u>8,400</u>	<u>\$ 340,000</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Battle of Sacramento - Grant Anticipation

On March 29, 2002, the McLean County Fiscal Court borrowed \$360,000 from Kentucky Association of Counties Leasing Trust for the acquisition of land and construction of a museum. The interest rate is variable, with payments due monthly for 20 years. The principal balance at June 30, 2003 was \$344,798. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 13,314	\$ 13,497
2005	12,775	13,942
2006	12,219	14,402
2007	11,644	14,877
2008	11,051	15,368
2009-2013	45,639	84,786
2014-2018	27,568	99,725
2019-2022	6,929	88,201
Totals	<u>\$ 141,139</u>	<u>\$ 344,798</u>

Series 2001 Renovation

On December 3, 2001, the McLean County Fiscal Court borrowed \$295,000 from Kentucky Area Development District Financing Trust in order to pay off an existing KADD lease and to complete the renovations of the McLean County Courthouse. The interest rate is variable, with semi-annual interest payments due on the 20th of April and October for 25 years. The principal balance at June 30, 2003 was \$290,000. Future lease interest and principal requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 16,416	\$ 5,000
2005	16,192	5,000
2006	15,967	5,000
2007	15,743	5,000
2008	15,513	5,000
2009-2013	70,715	50,000
2014-2018	57,000	50,000
2019-2023	39,340	75,000
2024-2028	16,080	90,000
Totals	<u>\$ 262,966</u>	<u>\$ 290,000</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Health Department

On May 10, 2001, the McLean County Fiscal Court borrowed \$300,000 from Kentucky Area Development District Leasing Fund (KADD) for improvements to the Health Department. The interest rate is 5.44%, with semi-annual payments due on the 20th of May and November for 10 years. The principal balance at June 30, 2003 was \$275,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 14,937	\$ 25,000
2005	13,563	25,000
2006	12,187	25,000
2007	10,675	30,000
2008	9,025	30,000
2009-2012	<u>17,976</u>	<u>140,000</u>
Totals	<u>\$ 78,363</u>	<u>\$ 275,000</u>

Various Construction Projects

On June 30, 2003, the McLean County Fiscal Court borrowed \$345,000 from Kentucky Association of Counties Leasing Trust for the purpose of financing various construction projects. The interest rate is variable, with payments due monthly for ten years. The principal balance at June 30, 2003 was \$345,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 10,541	\$ 30,018
2005	9,103	30,936
2006	8,167	31,881
2007	7,188	32,855
2008	6,189	33,858
2009-2013	<u>14,636</u>	<u>185,452</u>
Totals	<u>\$ 55,824</u>	<u>\$ 345,000</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Dump Trucks

On May 14, 2003, the McLean County Fiscal Court borrowed \$155,000 from Kentucky Association of Counties Leasing Trust for the purpose of purchasing two tandem dump trucks. The interest rate is variable, with payments due monthly for ten years. The principal balance at June 30, 2003 was \$155,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 5,148	\$ 13,486
2005	4,090	13,899
2006	3,669	14,323
2007	3,229	14,761
2008	2,780	15,212
2009-2013	<u>6,576</u>	<u>83,319</u>
Totals	<u>\$ 25,492</u>	<u>\$ 155,000</u>

Fire Trucks

On May 14, 2003, the McLean County Fiscal Court borrowed \$175,000 from Kentucky Association of Counties Leasing Trust for the purpose of purchasing two fire trucks. The interest rate is variable, with payments due monthly for ten years. The principal balance at June 30, 2003 was \$175,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 5,812	\$ 15,227
2005	4,617	15,692
2006	4,143	16,171
2007	3,646	16,665
2008	3,139	17,175
2009-2013	<u>7,424</u>	<u>94,070</u>
Totals	<u>\$ 28,781</u>	<u>\$ 175,000</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Ambulance

On May 19, 2003, the McLean County Fiscal Court borrowed \$55,000 from Kentucky Association of Counties Leasing Trust for the purpose of purchasing a 2003 F-450 Ambulance. The interest rate is variable, with payments due monthly for five years. The principal balance at June 30, 2003 was \$55,000. Future lease interest and principal requirements of the General Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,723	\$ 10,348
2005	1,204	10,664
2006	879	10,990
2007	541	11,326
2008	193	11,672
Totals	<u>\$ 4,540</u>	<u>\$ 55,000</u>

Grader

On July 14, 1999, the McLean County Fiscal Court borrowed \$98,826 from Kentucky Association of Counties Leasing Trust for the purchase of a grader. The interest rate is variable, with payments due monthly for 7 years. The principal balance at June 30, 2003 was \$47,077. Future lease interest and principal requirements of the Road and Bridge Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,601	\$ 14,649
2005	1,008	15,317
2006	389	16,016
2007	4	1,095
Totals	<u>\$ 3,002</u>	<u>\$ 47,077</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Highway 136 Sewer Project

On September 19, 2000, the McLean County Fiscal Court borrowed \$72,000 from Green River Area Development District (GRADD) for the Highway 136 Sewer Project. The interest rate is 5.50%, with semi-annual payments due on the 1st of May and November for 7 years. The principal balance at June 30, 2003 was \$48,864. Future lease interest and principal requirements of the Community Development Block Grant- Revolving Loan Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 1,854	\$ 10,119
2005	1,449	10,528
2006	1,020	10,953
2007	578	11,395
2008	117	5,869
Totals	<u>\$ 5,018</u>	<u>\$ 48,864</u>

Sewer Project

On July 26, 2001, the McLean County Fiscal Court borrowed \$400,000 from Kentucky Association of Counties Leasing Trust for the construction of and improvements to the McLean County sewer system. The interest rate is variable, with payments due monthly for 20 years. The principal balance at June 30, 2003 was \$375,000. Future lease interest and principal requirements of the Community Development Block Grant - Revolving Loan Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 19,549	\$ 15,000
2005	18,754	15,000
2006	17,959	15,000
2007	17,164	15,000
2008	16,368	15,000
2009-2013	67,881	95,000
2014-2018	39,496	120,000
2019-2022	7,400	85,000
Totals	<u>\$ 204,571</u>	<u>\$ 375,000</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Fire Department and Community Center

On November 12, 1998, the McLean County Fiscal Court refinanced and consolidated through Kentucky Area Development District Leasing Fund (KADD) two loans previously held by First Security Bank and Trust of Island, Kentucky. The total amount refinanced for both loans was \$116,000 at an interest rate of 5.10% for 7 years with semi-annual payments due on the 20th of May and November. As of June 30, 2003, the principal balance outstanding was \$46,600. Future lease interest and principal requirements of the Fire Department Fund are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,152	\$ 17,800
2005	1,234	18,700
2006	258	10,100
Totals	<u>\$ 3,644</u>	<u>\$ 46,600</u>

Fire Truck - Eastern Fire District

On June 20, 2002, the McLean County Fiscal Court and Eastern Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance as of June 30, 2003 was \$69,716. Future lease interest and principal requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2004	\$ 2,091	\$ 5,443
2005	1,928	5,607
2006	1,760	5,775
2007	1,587	5,948
2008	1,408	6,126
2009-2013	4,172	33,502
2014	220	7,315
Totals	<u>\$ 13,166</u>	<u>\$ 69,716</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Capital Leases (Continued)

Fire Truck - Western Fire District

On June 20, 2002, the McLean County Fiscal Court and Western Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. The loan period shall not exceed twelve years. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance as of June 30, 2003 was \$69,716. Future lease interest and principal requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,091	\$ 5,443
2005	1,928	5,607
2006	1,760	5,775
2007	1,587	5,948
2008	1,408	6,126
2009-2013	4,172	33,502
2014	220	7,315
Totals	<u>\$ 13,166</u>	<u>\$ 69,716</u>

Fire Truck - Southeastern/Island Fire District

On July 26, 2002, the McLean County Fiscal Court and Southeastern/Island Fire District, a volunteer fire department, entered into a promissory note and loan agreement with the Commission on Fire Protection Personnel Standards and Education in the amount of \$75,000. The interest rate is 3.0%. Principal and interest are due in equal annual installments in the amount of \$7,535. The principal balance as of June 30, 2003 was \$69,716. Future lease interest and principal requirements are:

Fiscal Year Ended June 30	Scheduled Interest	Scheduled Principal
2004	\$ 2,091	\$ 5,443
2005	1,928	5,607
2006	1,760	5,775
2007	1,587	5,948
2008	1,408	6,126
2009-2013	4,172	33,502
2014	220	7,315
Totals	<u>\$ 13,166</u>	<u>\$ 69,716</u>

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Related Party Transaction

Magistrate Ronald H. Coleman and Brenda R. Coleman obtained an interest free loan of \$6,000 from Community Development Block Grant Funds - Tornado Mitigation Project for a period of ten years. The application for the loan was dated, October 30, 2002. Mr. Coleman was not a magistrate when he applied for the loan.

Note 7. Insurance

For the fiscal year ended June 30, 2003, McLean County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MCLEAN COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 2,812,717	\$ 1,679,321	\$ (1,133,396)
Road and Bridge Fund	896,162	927,449	31,287
Jail Fund	33,223	35,769	2,546
Local Government Economic Assistance Fund	130,600	78,882	(51,718)
<u>Special Revenue Fund Type</u>			
Ambulance Fund	369,592	347,938	(21,654)
Fire Departments Fund	177,777	173,057	(4,720)
Community Development Block Grant - Revolving Loan Fund	251,371	234,998	(16,373)
Adult Education Fund	67,403	61,375	(6,028)
911 Fund	155,500	161,351	5,851
Senior Citizens Fund	33,850	45,882	12,032
Totals	<u>\$ 4,928,195</u>	<u>\$ 3,746,022</u>	<u>\$ (1,182,173)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 4,928,195
Add: Budgeted Prior Year Surplus			616,706
Borrowed Money			673,159
Less: Other Financing Uses			<u>(1,016,254)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 5,201,806</u>

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SCHEDULE OF OPERATING REVENUE

MCLEAN COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2003

<u>GOVERNMENTAL FUND TYPE</u>					
<u>Revenue Categories</u>	<u>General Fund Type</u>	<u>Special Revenue Fund Type</u>	<u>Capital Projects Fund Type</u>	<u>Debt Service Fund Type</u>	<u>Totals (Memorandum Only)</u>
Taxes	\$ 1,038,365	\$ 113,513	\$	\$	\$ 1,151,878
Excess Fees	52,439				52,439
Licenses and Permits	626				626
Intergovernmental Revenues	1,296,419	504,293		164,925	1,965,637
Charges for Services	116,431	339,113			455,544
Miscellaneous Revenues	202,388	65,013			267,401
Interest Earned	14,753	2,697	163	15	17,628
Total Operating Revenue	<u>\$ 2,721,421</u>	<u>\$ 1,024,629</u>	<u>\$ 163</u>	<u>\$ 164,940</u>	<u>\$ 3,911,153</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MCLEAN COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 925,816	\$ 788,598	\$ 137,218
Protection to Persons and Property	372,837	322,604	50,233
General Health and Sanitation	451,310	138,611	312,699
Social Services	4,000	114	3,886
Recreation and Culture	336,047	30,337	305,710
Transportation Facilities and Services	74,886	27,419	47,467
Roads	858,594	708,323	150,271
Debt Service	28,225	16,355	11,870
Administration	410,857	382,088	28,769
Total Operating Budget - General Fund Types	\$ 3,462,572	\$ 2,414,449	\$ 1,048,123
Other Financing Uses:			
Capital Lease Agreements- Principal on Leases	968,124	80,687	887,437
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 4,430,696</u>	<u>\$ 2,495,136</u>	<u>\$ 1,935,560</u>

MCLEAN COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 56,989	\$ 56,361	\$ 628
Protection to Persons and Property	1,441,156	1,303,781	137,375
Social Services	104,617	100,806	3,811
Debt Service	5,602	3,746	1,856
Administration	130,870	112,215	18,655
Total Operating Budget - Special Revenue Fund Types	\$ 1,739,234	\$ 1,576,909	\$ 162,325
Other Financing Uses:			
Capital Lease Agreements			
Principal on Leases	48,130	38,800	9,330
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 1,787,364</u>	<u>\$ 1,615,709</u>	<u>\$ 171,655</u>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
Auditor of Public Accounts

The Honorable Larry B. Whitaker, McLean County Judge/Executive
Members of the McLean County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of McLean County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated March 4, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether McLean County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McLean County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 4, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry B. Whitaker, McLean County Judge/Executive
Members of the McLean County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of McLean County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. McLean County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McLean County's management. Our responsibility is to express an opinion on McLean County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McLean County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of McLean County's compliance with those requirements.

As described in referenced items 2003-1 through 2003-6 in the accompanying schedule of findings and questioned costs, McLean County did not comply with requirements regarding Activities Allowed or Unallowed and Allowable Costs that are applicable to its CDBG-Tornado Mitigation CERF Project Grant. Compliance with such requirements is necessary, in our opinion, for McLean County to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, McLean County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of McLean County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McLean County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 4, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of McLean County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of McLean County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for McLean County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for McLean County are reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant -Tornado Mitigation CERF Project Grant.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. McLean County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS:

None.

NONCOMPLIANCES:

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

Reference # 2003-1

The Fiscal Court Should Erect Project Signs As Required By The Community Development Block
Grant Agreement

As part of our audit procedures we reviewed the Tornado Mitigation CERF Project Grant agreement. The terms of the grant agreement stipulate that the recipient (McLean County) "will include in the first bid document that a contractor erect a project sign according to CDBG specifications". No sign was erected as required by the grant agreement. In the future, we recommend the fiscal court ensure that contractors erect project signs as required by the grant agreement.

County Judge/Executive Larry Whitaker's Response:

Per Sheryl Chino, the discussion of erecting a sign was discussed by Department of Local Government and that a sign need not be erected. The project had been completed. No need for a sign per DLG.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference # 2003-1 (Continued)

The Fiscal Court Should Erect Project Signs As Required By The Community Development Block Grant Agreement (Continued)

County Judge/Executive Larry Whitaker's Response:(Continued)

The italicized response on the prior page is the verbatim responses from GRADD staff. McLean County contracted with GRADD (note payment to GRADD for administration services) for the direction and compliance with the CDBG grant as they had experience and were in almost daily contact with DLG on all matters regarding the CERF project. I became aware of the incorrect administration policies during the auditor's initial review of this grant and immediately contacted GRADD for an explanation and accountability in order to address and correct these deficiencies.

Auditor's Response:

The sign should have been erected in accordance with the grant agreement while the project was in process.

Reference # 2003-2

The Fiscal Court And Green River Area Development District Should Follow Community Development Block Grant Program Procurement Standards

During testing it was noted that bids were not taken for the project, but rather cash payments were made to loan applicants to be used to make repairs to homes or businesses. The grant agreement does not appear to call for these payments to be made directly to the applicants. Green River Area Development District (GRADD) approved cash payments to loan applicants. McLean County and GRADD do not appear to have followed procurement standards required by the CDBG Program. We recommend the fiscal court and GRADD follow procurement standards required by the CDBG program.

County Judge/Executive Larry Whitaker's Response:

The application called for cash payments to be paid to the applicants. The application was approved for funding and the grant agreement was issued based on the application. Per Mike Hale, CERF Project Administrator at DLG, procurement policies were not required for the contractors. McLean County contracted the GRADD staff to make draws.

The italicized response above is the verbatim responses from GRADD staff. McLean County contracted with GRADD (note payment to GRADD for administration services) for the direction and compliance with the CDBG grant as they had experience and were in almost daily contact with DLG on all matters regarding the CERF project. I became aware of the incorrect administration policies during the auditor's initial review of this grant and immediately contacted GRADD for an explanation and accountability in order to address and correct these deficiencies.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference # 2003-2 (Continued)

The Fiscal Court And Green River Area Development District Should Follow Community Development Block Grant Program Procurement Standards (Continued)

Auditor's Response:

The Community Development Grant Program procurement standards were not followed as required by the grant agreement. If the grant agreement did not agree to the application then the grant agreement should have been amended to reflect the applicant's intent prior to making disbursements.

Reference # 2003-3

The Fiscal Court Should Approve All Payments Made From Community Development Block Grant Funds

During testing of federal expenditures, it was noted that the FY 2003 Annual Standing Order To Preapprove Certain Recurring Expenses included CDBG Loan Fund Disbursements For Housing Loans and Administration. This order was not approved by the Department For Local Government - State Local Finance Officer until December 12, 2003. Therefore, the expenditures for housing loans and administration were not properly approved by fiscal court prior to the expenditure being made. We recommend the fiscal court approve all payment from CDBG funds.

County Judge/Executive Larry Whitaker's Response:

Fiscal court was aware of the ongoing disbursements from the CDBG CERF projects as evidenced by them appearing on the monthly claim sheet for approval. I understood from DLG that this was appropriate given the "emergency" nature of the project. However, further inquiry by the county treasurer and myself determined that the disbursements should be approved prior to disbursement of funds and was corrected by the standing order of December 12, 2003.

Auditor's Response:

Standing Orders are to be approved by DLG before the disbursement of funds. Since the standing order was not signed until December 12, 2003, the non-compliance was not corrected for the fiscal year ending June 30, 2003.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference # 2003-4

The Fiscal Court And Green River Area Development District Should Provide Documentation To Determine The Allowability Of Cash Payments Made From Community Development Block Grant Funds

During testing of McLean County for the compliance requirements that were applicable to the McLean County Tornado Mitigation CERF Project Grant for fiscal year ended June 30, 2003, it was noted that cash payments were made to loan applicants. These expenditures do not appear to be allowable per the grant agreement. GRADD was contracted to “render technical advice and assistance” and “provide complete project management services necessary for the implementation and successful completion of the County CDBG project”. GRADD, as the technical advisor as stated in the contract with the County, should have provided guidance to the County, as to the allowability of cash payments in the amount \$130,650 made to loan applicants for rehabilitation of homes and businesses, since such cash payments are not authorized by the grant agreement. We recommend the fiscal court and GRADD provide documentation to determine the allowability of cash payments made from CDBG Funds.

County Judge/Executive Larry Whitaker’s Response:

All applicants that had sustained damage during the tornado were eligible to recover any losses that might have incurred. The application states that cash expenditures are allowable to recipients. As stated above, the grant agreement was based on the application. DLG did not have a problem with the eligibility of the applicants.

The italicized response above is the verbatim responses from GRADD staff. McLean County contracted with GRADD (note payment to GRADD for administration services) for the direction and compliance with the CDBG grant as they had experience and were in almost daily contact with DLG on all matters regarding the CERF project. I became aware of the incorrect administration policies during the auditor’s initial review of this grant and immediately contacted GRADD for an explanation and accountability in order to address and correct these deficiencies.

Auditor’s Response:

The grant agreement, which is the authoritative document, called for cash draw-downs by the County. The grant agreement does not call for cash payments to recipients who did not provide proper documentation of losses. As of the date of testing, GRADD was still in the process of obtaining proper documentation.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference # 2003-5

The Fiscal Court Should Require Adequate Supporting Documentation For Loans

During testing of federal expenditures, we found inadequate documentation for the payments made to the loan applicants. Some applicants submitted only handwritten statements as to what the tornado damage costs were, some applicants submitted handwritten statements as to the amount of insurance proceeds received, and some applicants submitted estimates for repairs but no documentation of damages incurred. We could find no documentation of verification of income of loan applicants. The documentation maintained by the County for these expenditures was submitted to the Green River Area Development District (GRADD) for review and approval prior to disbursement by the County. GRADD was contracted for "preparation of evidentiary materials" and should have required applicants to submit proof of loss claimed by applicant, proof of insurance settlements, cancelled invoices, and cancelled checks prior to approval of loan disbursements. Due to the inadequate documentation for federal expenditures made in the form of loans, these expenditures to loan applicants will be shown as questioned costs in the amount of \$84,950.

County Judge/Executive Larry Whitaker's Response:

GRADD is in the process of getting all adequate documentation as we receive authorization forms from the applicants. {GRADD acknowledges that they should have completed this action prior to disbursement of funds and is doing this now because of an internal audit by DLG.lbw.}

The italicized response above is the verbatim responses from GRADD staff. McLean County contracted with GRADD (note payment to GRADD for administration services) for the direction and compliance with the CDBG grant as they had experience and were in almost daily contact with DLG on all matters regarding the CERF project. I became aware of the incorrect administration policies during the auditor's initial review of this grant and immediately contacted GRADD for an explanation and accountability in order to address and correct these deficiencies.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference # 2003-6

The Fiscal Court Should Monitor The Rehabilitation Of Homes And Businesses

As part of our audit procedures we reviewed the Tornado Mitigation CERF Project Grant agreement. The terms of the grant agreement stipulate that the recipient (McLean County) "will use funds to establish a loan program for the rehabilitation of homes and businesses damaged as a result of the tornado. Terms of the loan agreements signed by the applicants allow for low to moderate income (LMI) participants to have 20% of the loan forgiven each year. The non LMI participants will receive a 10 year, 0% interest loan. Per discussion with County officials and staff, no monitoring of rehabilitation of homes or businesses had been performed, therefore applicants could have obtained interest free loans or loans forgiven over a five year period for purposes other than what was allowable per the grant agreement.

Since McLean County did not contract with a vendor to provide the rehabilitation for homes and businesses, the County should have monitored loan recipients to determine if loan proceeds of \$84,950 were actually used to repair damages caused by the tornado.

County Judge/Executive Larry Whitaker's Response:

There is documentation that each applicant did use funds to make repairs. DLG has asked for additional information in which the {GRADD} staff is awaiting signed authorization from the recipients to proceed.

The italicized response above is the verbatim responses from GRADD staff. McLean County contracted with GRADD (note payment to GRADD for administration services) for the direction and compliance with the CDBG grant as they had experience and were in almost daily contact with DLG on all matters regarding the CERF project. I became aware of the incorrect administration policies during the auditor's initial review of this grant and immediately contacted GRADD for an explanation and accountability in order to address and correct these deficiencies.

Auditor's Response:

The documentation provided to auditor does not adequately support the statement that applicant used the funds to make repairs to damaged or lost property. Much of the documentation provided to the auditor consisted of hand written statements and estimates prepared by applicant with no documentation to support the amounts requested. As of the date of testing, there had been no follow up by the County or GRADD to determine if these funds were actually spent to repair or replace damaged property.

MCLEAN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

	<u>Questioned Costs</u>
U.S. DEPARTMENT FOR HOUSING AND URBAN DEVELOPMENT-Community Development Block Grant- State Administered Small Cities- Tornado Mitigation CERF Project Grant	<u>\$84,950</u>

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MCLEAN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>		
Direct Program- Community Oriented Policing Services- Universal Hiring Program (CFDA #16.710)	2002UMWX0114	\$ 7,906
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department of Local Government: Community Development Block Grants-State Administered Small Cities- Tornado Mitigation CERF Project (CFDA #14.228)	01-079	183,302
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs: Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	N/A	4,605
Direct Program Assistance to Firefighters Grant Program For Fire Operators and Firefighter Safety (CFDA #97.004)	EMW-2002-FG-13964 EMW-2002-FG-11770 EMW-2002-FG-04983	116,037

MCLEAN COUNTY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For The Fiscal Year Ended June 30, 2003
 (Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Education</u>		
Passed-Through State- Department for Adult Education and Literacy Adult Education Grant (CFDA #84.002)	M-02349743	\$ 29,133
<u>U.S. Department of Health and Human Services</u>		
Passed-Through State-Cabinet for Health Services- Title III Senior Services Grant (CFDA #93.044)	M-02128814-8	12,283
Passed-Through State-Cabinet for Health Services- Title III Senior Services Grant (CFDA #93.045)	M-02128814-8	<u>3,975</u>
Total Expenditures of Federal Awards		<u>\$ 357,241</u>

MCLEAN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying Schedule of Federal Expenditures of Federal Awards includes the federal grant activity of McLean County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MCLEAN COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2003

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
MCLEAN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2003

The McLean County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

